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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20036

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MAY 15 1998

In the Matter of

Federal-State Joint Board on
Universal Service

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CC Docket No. 96-45
CC Docket No. 97-160
DA 98-71

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

COMMENTS OF OPERATOR COMMUNICATIONS, INC.

Operator Communications, Inc. d/b/a Oncor Communications, Inc. ("Oncor") hereby submits its initial comments in response to the Commission's public notice inviting comment on proposals to revise the methodology for determining universal service support.¹ In that public notice, the Commission noted that it would consider alterations to the methodology for providing universal service support to non-rural LECs, and that it might be amenable to modification of the "25/75" approach for allocation of universal service support between the interstate and intrastate jurisdictions. The Commission also invited interested persons to submit specific proposals for alternative methodologies.

In response to that public notice, several parties filed proposals.² None of those proposals submitted address an aspect of the universal service methodologies and rules which has caused and will continue to cause substantial harm to certain contributors, specifically smaller contributors who serve declining telecommunications market segments. Under the current universal service

¹See Public Notice - Common Carrier Bureau Seeks Comment on Proposals to Revise the Methodology for Determining Universal Service Support, DA 98-715, released April 15, 1998

²Parties submitting proposals on or about April 27, 1998 include Sprint Corporation, the South Dakota Public Utilities Commission, the Arizona Corporation Commission, John Starulakis, Inc., Puerto Rico Telephone Company, U S West Communications, Inc., BellSouth Corporation, the Ad Hoc Working Group of the National Association of Regulatory Utility Commissioners, Time Warner Communications Holdings, Inc., and GTE Service Corporation.

contribution rules, telecommunications carriers are required to report revenues on a semi-annual basis. Those revenue reports contained in the universal service contribution worksheets are used to calculate each telecommunications carrier's prospective contributions. In other words, carrier contributions are based upon revenues generated in previous periods. Where a carrier is enjoying growth, this causes no economic or competitive harm to the carrier. Where, however, a carrier's revenues are declining -- for whatever reasons, the effect of this "contribution lag" is to unduly penalize those carriers whose contributions to universal service will be disproportionately large based upon their current revenue levels.

Oncor is a carrier whose business primarily involves interexchange service from aggregator locations, mainly public telephones. Oncor and other carriers which serve the public communications segment of the market have seen their traffic levels and revenues decline in recent years. These declines in traffic and revenues primarily are the result of three factors: 1) growth of the prepaid calling card industry segment; 2) the dramatic increase in "dial around" calling (*i.e.* use of toll carriers other than the carrier serving the public phone on a presubscribed basis, by dialing 10XXX, 1-800 or other access codes); and 3) increased use of wireless telecommunications services such as cellular and PCS.

Whatever the reason for the declining traffic and revenues, there is no doubt that certain carriers are experiencing such declines. Thus, when a company like Oncor is required to contribute to universal service this year based on revenue levels of last year, an unreasonable portion of this year's revenues will go to support universal service. For carriers in that situation, there are only two alternatives: either suffer a reduction in net revenues and quite possibly, elimination of profitability, or increase consumer charges as needed to compensate for the disproportionately high universal

service contributions based on revenues earned in past periods. Neither of those alternatives is in the interests of those carriers or their customers.

Recognizing that it is inevitable that some "contribution lag" will result in any system that bases contributions on revenues generated in previous periods, the solution to the current inequity is to modify the existing system to one where carriers pay estimated contributions subject to an annual reconciliation or true-up. Such a system would be similar to the current Internal Revenue Service procedures for paying estimated taxes.

Under the current system, carriers report actual revenues twice a year, once in September, and again in March of the next year. The September worksheet includes actual revenues for the period January 1 - June 30 of the same year. The March worksheet includes actual revenues for the entire prior year. Oncor proposes that carriers report both actual revenues for past periods, but also estimated revenues for the upcoming half year. The Commission should then calculate the carrier's contribution based on the estimated revenues. This will allow carriers experiencing declining revenues to match contributions that must be paid to the fund administrator with the revenue on which the contributions are based. To ensure that the carrier is not under reporting its estimated revenues in an attempt to improperly reduce its contributions, the Commission may compare the carrier's March worksheets year to year and reconcile the contributions paid based on the estimates with the contributions that should be paid on the actual revenue.

Oncor supports the Commission's efforts to refine the universal service support methodologies. However, in doing so, it urges the Commission also to consider the impact of the current contribution methods on those telecommunications carriers which serve declining market segments and which are not enjoying the growth in traffic and revenues being experienced by carriers

serving growing market segments, and to adopt the alternative contribution method described above.

Respectfully submitted,

OPERATOR COMMUNICATIONS, INC.
D/B/A ONCOR COMMUNICATIONS, INC.

A handwritten signature in black ink, appearing to read "M. F. Brecher", is written over a horizontal line.

Mitchell F. Brecher
Robert E. Stup, Jr.

FLEISCHMAN AND WALSH, L.L.P.
1400 Sixteenth Street, NW
Washington, DC 20036
(202) 939-7900

Its Attorneys

May 15, 1998

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CERTIFICATE OF SERVICE

I, Joan M. Trepal, a secretary in the law firm of Fleischman and Walsh, L.L.P., hereby certify that on this 15th day of May, 1998, copies of the foregoing "Comments of Operator Communications, Inc." were sent by first class mail, postage prepaid, to the following:

The Honorable Susan Ness
Chairman
Federal Communications Commission
1919 M Street, N.W. Room 832
Washington, DC 20554

The Honorable Partick H. Wood, III
Chairman
Texas Public Utility Commission
1701 North Congress Ave.
Austin, TX 78701

The Honorable Harold Furchtgott-Roth
Commissioner
Federal Communications Commission
1919 M Street, N.W., Room 802
Washington, DC 20554

Martha S. Hogerty
Missouri Office of Public Council
301 West High Street, Suite 250
Truman Building
Jefferson City, MO 65102

The Honorable Gloria Tristani,
Commissioner
Federal Communications Commission
1919 M Street, N.W., Room 826
Washington, DC 20554

Charles Bolle
South Dakota Public Utilities Commission
State Capitol, 500 East Capitol Street
Pierre, SD 57501-5070

The Honorable Julia Johnson, State Chair,
Chairman
Florida Public Service Commission
2540 Shumard Oak Blvd.
Gerald Gunter Building
Tallahassee, FL 32399-0850

Deonne Brunning
Nebraska Public Service Commission
300 The Atrium, 1200 N Street,
P.O. Box 94927
Lincoln, NE 68509-4927

The Honorable David Baker,
Commissioner
Georgia Public Service Commission
244 Washington Street, S.W.
Atlanta, GA 30334-5701

James Casserly
Federal Communications Commission
Commissioner Ness's Office
1919 M Street, N.W., Room 832
Washington, DC 20554

The Honorable Laska Schoenfelder,
Commissioner
South Dakota Public Utilities Commission
State Capitol, 500 East Capitol Street
Pierre, SD 57501-5070

Rowland Curry
Texas Public Utility Commission
1701 North Congress Avenue
P.O. Box 13326
Austin, TX 78701

Bridget Duff, State Staff Chair
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, FL 32399-0866

Ann Dean
Maryland Public Service Commission
16th Floor, 6 Saint Paul Street
Baltimore, MD 21202-6806

Irene Flannery, Federal Staff Chair
Federal Communications Commission
Accounting and Audits Division
Universal Service Branch
2100 M Street, N.W., Room 8922
Washington, DC 20554

Paul Gallant
Federal Communications Commission
Commissioner Tritani's Office
1919 M Street, N.W., Room 826
Washington, DC 20554

Lori Kenyon Alaska Public Utilities
Commission
1016 West Sixth Avenue, Suite 400
Anchorage, AK 99501

Mark Long
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, FL 32399-0866

Sandra Makeef
Iowa Utilities Board
Lucas State Office Building
Des Moines, IA 50319

Kevin Martin
Federal Communications Commission
Commissioner Furchtgott-Roth's Office
1919 M Street, N.W., Room 802
Washington, DC 20554

Philip F. McClelland
Pennsylvania Office of Consumer Advocate
1425 Strawberry Square
Harrisburg, PA 17120

Barry Payne
Indiana Office of the Consumer Counsel
100 North Senate Avenue, Room N501
Indianapolis, IN 46204-2208

James Bradford Ramsey
National Association of Regulatory Utility
Commissioners
1100 Pennsylvania Avenue, N.W.
P.O. Box 684
Washington, DC 20044-0684

Brian Roberts
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102

Tiane Sommer
Georgia Public Service Commission
244 Washington Street, S.W.
Atlanta, GA 30334-5701

Sheryl Todd
Federal Communications Commission
Accounting and Audits Division
Universal Service Branch
2100 M Street, N.W., Room 8611
Washington, DC 20554

M. Robert Sutherland, Esq.
Richard M. Sbaratta, Esq.
BellSouth Corporation
1155 Peachtree Street, N.E.
Suite 1700
Atlanta, GA 30309-3610

Jay C. Keithley, Esq.
Sprint Corporation
1850 M Street, N.W., 11th Floor
Washington, DC 20036-5807

Sandra K. Williams, Esq.
Spring Corporation
P.O. Box 11315
Kansas City, MO 64112

William Bullard, Jr.
Executive Director
South Dakota Public Utilities Commission
State Capitol Building
500 East Capitol Avenue
Pierre, SD 57501-5070

Paul A. Bullis, Esq., Chief Counsel
Maureen A. Scott, Esq.
Arizona Corporation Commission
1200 West Washington Street
Phoenix, AZ 85007

David A. Motycka, Acting Assistant Director
Del P. Smith, Utilities Consultant
Will M. Shand, Senior Economist
Matthew J. Rowell, Economist II
Utilities Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, AZ 85007

Bruce Schoonover
Executive Vice President
John Staurulakis, Inc.
6315 Seabrook Road
Seabrook, MD 20706

Joe D. Edge, Esq.
Tina M. Pidgeon, Esq.
Drinker, Biddle & Reath, L.L.P.
901 15th Street, N.W., Suite 900
Washington, DC 20005

Robert B. McKenna, Esq.
John L. Traylor, Esq.
US West Communications, Inc.
1020 19th Street, N.W., Suite 700
Washington, DC 20036

Thomas L. Welch
Thomas J. Dunleavy
NARUC Ad Hoc Working Group
c/o Maine Public Utilities Commission
242 State Street
Augusta, ME 04333

Brian Conboy, Esq.
Thomas Jones, Esq.
Jay Angelo, Esq.
Willkie, Farr & Gallagher
Three Lafayette Centre
1155 21st Street, N.W.
Washington, DC 20036

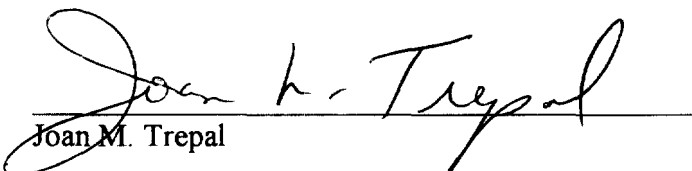
John F. Raposa, Esq.
GTE Service Corporation
600 Hidden Ridge, HQE03J27
P.O. Box 152092
Irving, TX 75015-2092

Gail L. Polivy, Esq.
GTE Service Corporation
1850 M Street, N.W., Suite 1200
Washington, DC 20036

Anthony M. Marquez, Esq.
Office of the Attorney General
Colorado Public Utilities Commission Staff
1525 Sherman Street -- 6th Floor
Denver, CO 80203

Michael P. Sauer
Executive Vice President
World Com
380 Madison Avenue
New York, NY 10017

Mr. Richard Ciripompa
IDB WorldCom
2839 Paces Ferry Road
Suite 810
Atlanta, GA 30339


Joan M. Trepal